

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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F. SCHUMACHER & CO.,

Plaintiff,

-against-

BARTH & DREYFUSS OF
CALIFORNIA, INC.,

Defendant.

05 Civ. 2226 (RMB) (HBP)

REPORT AND
RECOMMENDATION

PITMAN, United States Magistrate Judge:

TO THE HONORABLE RICHARD M. BERMAN, United States
District Judge,

I. Introduction

On September 1, 2005, the Honorable Richard M. Berman, United States District Judge for the Southern District of New York, referred this matter to me to conduct an inquest and to issue a report and recommendation concerning plaintiff's damages.

Pursuant to the Order of Reference, I issued a Scheduling Order on December 9, 2005, directing plaintiff to serve and file proposed findings of fact and conclusions of law by January 13, 2006 and directing defendant to submit responsive materials by February 13, 2006. My December 9, 2005 Scheduling Order further provided:

conclusions of law on the basis of plaintiff's submissions alone and respectfully recommend that judgment be entered against defendant in favor of plaintiff in the amount of \$208,852.85 plus costs as taxed by the Clerk of the Court.

II. Findings of Fact

A. Nature of Action

1. This is an action against plaintiff's former licensee Barth & Dreyfuss of California, Inc. ("B&D") for (i) breach of contract, (ii) infringement of plaintiff's trademarks, in violation of Sections 32 (1) and 43(a) of the Trademark Act of 1946, as amended (the "Lanham Act"), 15 U.S.C. §§ 1114(1), 1125(a); (iii) false designation of origin, in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a); (iv) unfair competition under the common law of New York; and (v) infringement of plaintiff's registered copyrights, in violation of the Copyright Act of 1976, 17 U.S.C. §§ 101 et seq. Since plaintiff has submitted proposed findings of fact and conclusions of law addressed only to plaintiff's damages in connection with its breach of contract claim, I consider plaintiff's other claims to be abandoned and do not address them.

B. The Parties

2. Plaintiff, F. Schumacher & Co. ("Schumacher") is a corporation organized and existing under the laws of the State of New York, with its principal place of business at 79 Madison Avenue, New York, New York 10016 (Compl. ¶ 6¹).

3. Since 1889, Schumacher has engaged in the sale of a wide range of home furnishing products and accessories. Today, Schumacher is a leading designer and marketer of decorative fabrics, wallpaper, carpeting and area rugs. Schumacher also manufactures and markets an array of home fashions including bedroom ensembles, window treatments and decorative accessories (Compl. ¶ 8).

4. B&D is a corporation organized and existing under the laws of the State of California, with its principal place of business at 2255 North Ontario Street, Burbank, California 91504 (Compl. ¶ 7).

¹As a result of B&D's default, all the allegations set forth in the complaint, except as to the amount of damages, must be taken as true. Bambu Sales, Inc. v. Ozak Trading Inc., 58 F.3d 849, 854 (2d Cir. 1995); Greyhound Exhibitgroup, Inc. v. E.L.U.L. Realty Corp., 973 F.2d 155, 158-59 (2d Cir. 1992); Trans World Airlines, Inc. v. Hughes, 449 F.2d 51, 69-70 (2d Cir. 1971), rev'd on other grounds, 409 U.S. 363 (1973); Wing v. E. River Chinese Rest., 884 F. Supp. 663, 669 (E.D.N.Y. 1995); Deshmukh v. Cook, 630 F. Supp. 956, 959 (S.D.N.Y. 1986).

C. Schumacher's Marks
and Copyrights

5. Schumacher markets its home furnishing products and accessories under a number of well-known trademarked brands, each aimed at a specific customer base. Schumacher licenses the use of one of those trademarks, "WAVERLY," to manufacturers of home furnishings and accessories as part of a licensing program designed to bring a coordinated product assortment to consumers (Compl. ¶ 9).

6. In the mid-1920's, Schumacher began using the "WAVERLY" mark in connection with decorative fabrics. Since the 1930's, Schumacher has extended the "WAVERLY" brand, first to wallpaper and home fashions, and later to other home furnishings by licensing use of the "WAVERLY" mark and various decorative fabric designs to leading manufacturers for products including carpet, bedding, window treatments, furniture, decorative accessories, lamps, dinnerware and paint (Compl. ¶ 11).

7. In late 2000, Schumacher further extended the "WAVERLY" brand by creating the "WAVERLY GARDEN ROOM" line of bedding and coordinates. Schumacher's "WAVERLY GARDEN ROOM" products consist of a variety of floral patterns, as well as complementary plaids, stripes and gingham checks. Schumacher's "WAVERLY GARDEN ROOM" products are sold exclusively in Target retail stores (Compl. ¶ 14).

8. Schumacher has also created an array of original decorative fabric designs for use in connection with its "WAVERLY" and "WAVERLY GARDEN ROOM" lines of home furnishings and accessories. Schumacher has registered many of these fabric designs with the United States Copyright Office (Compl. ¶ 20).

9. Schumacher has registered copyrights for the following fabric designs that it sells in connection with its "WAVERLY" brand: (1) "Tahiti," (2) "La Frutta" and (3) "Lyon." These decorative fabric designs are referred to collectively herein as the "Waverly Copyrighted Designs" (Compl. ¶ 21).

10. Schumacher has also registered copyrights for the following fabric designs that it sells in connection with its "WAVERLY GARDEN ROOM" brand: (1) "Bramasole" (also known as "Harbor Square at Target") and (2) "Norfolk Rose" (also known as "Vintage Rose at Target"). These decorative fabric designs are referred to collectively herein as the "Waverly Garden Room Copyrighted Designs" (Compl. ¶ 22).

D. Schumacher's License
Agreements with B&D

11. From 2000 to 2003, Schumacher and B&D executed three separate license agreements (Declaration of Corinne P. Kevorkian, Esq., sworn to January 12, 2006 ("Kevorkian Decl."), ¶ 2).

1. The Waverly Garden
Room License Agreement

12. On July 18, 2000, Schumacher, its Waverly Lifestyle Group Division and B&D entered into an agreement pursuant to which Schumacher granted B&D a license to use plaintiff's trademark "WAVERLY GARDEN ROOM" and the Waverly Garden Room Copyrighted Designs in connection with the manufacture and sale of kitchen and tabletop accessories for exclusive distribution in Target retail stores throughout the United States (the "Waverly Garden Room License Agreement") (Kevorkian Decl. ¶ 3 and Exhibit 1, thereto).

13. As part of the Waverly Garden Room License Agreement, B&D agreed to pay Schumacher royalty fees, including annual guaranteed minimum royalties, in connection with B&D's sale of kitchen and tabletop accessories bearing plaintiff's "WAVERLY GARDEN ROOM" mark and plaintiff's Waverly Garden Room Copyrighted Designs (Kevorkian Decl. ¶ 4 and Exhibit 1 thereto at ¶ 8.)

14. Schumacher and B&D amended the Waverly Garden Room License Agreement on December 10, 2002 and December 23, 2003. As amended, that Agreement expired on December 31, 2004 (Kevorkian Decl. ¶ 5 and Exhibit 2 thereto).

2. The Tahiti
License Agreement

15. On October 7, 2002, Schumacher and B&D entered into a second agreement pursuant to which Schumacher granted B&D a license to use one of Schumacher's copyrighted fabric designs - the Tahiti design in the "Natural" color only -- in connection with the manufacture and sale of kitchen and tabletop accessories for exclusive distribution in Bed Bath & Beyond stores throughout the United States (the "Tahiti License Agreement") (Kevorkian Decl. ¶ 6 and Exhibit 3 thereto).

16. As part of the Tahiti License Agreement, B&D agreed to pay Schumacher royalty fees in connection with B&D's sale of kitchen and tabletop accessories bearing Schumacher's Tahiti design (Kevorkian Decl. ¶ 7 and Exhibit 3 thereto at ¶ 6).

17. The parties amended the Tahiti License Agreement on November 14, 2003. As amended, that Agreement expired on December 31, 2004 (Kevorkian Decl. ¶ 8 and Exhibit 4 thereto).

3. The Waverly
License Agreement

18. On January 3, 2003, Schumacher and B&D entered into a third agreement pursuant to which Schumacher granted B&D a license to use Schumacher's "WAVERLY" mark and the Waverly Copyrighted Designs in connection with the manufacture and sale of kitchen and tabletop accessories for exclusive distribution in

Linens 'n Things retail stores throughout the United States (the "Waverly License Agreement") (Kevorkian Decl. ¶ 9 and Exhibit 5 thereto).

19. As part of the Waverly License Agreement, B&D agreed to pay Schumacher royalty fees, including annual guaranteed minimum royalties, in connection with B&D's sale of kitchen and tabletop accessories bearing plaintiff's "WAVERLY" mark and plaintiff's Waverly Copyrighted Designs. B&D also agreed to pay Schumacher advertising fees equal to two percent (2%) of net sales derived from B&D's sale of the kitchen and tabletop accessories bearing Schumacher's "WAVERLY" mark and plaintiff's Waverly Copyrighted Designs (Kevorkian Decl. ¶ 10 and Exhibit 5 thereto at ¶¶ 6.6, 8).

20. The Waverly License Agreement expired on December 31, 2004 (Kevorkian Decl. ¶ 11).

E. B&D's Failure to Make
the Payments Required by
Its Agreements with Schumacher

21. In late August 2004, Schumacher's auditor reviewed B&D's accounts and records. The audit examined B&D's gross sales derived from the sale of licensed goods, and royalty payments due to Schumacher under the Waverly Garden Room License Agreement, Tahiti License Agreement and Waverly License Agreement (collec-

tively, the "License Agreements"), from the inception of the License Agreements through June 30, 2004 (Kevorkian Decl. ¶ 12).

22. The August 2004 audit disclosed that B&D had underpaid Schumacher under two of the three License Agreements as a result of unreported gross sales or calculation errors. Specifically, the audit disclosed a total deficiency of \$45,015, comprised of \$17,993 due under the Waverly License Agreement (\$16,211 in royalties and advertising on unreported sales and \$1,782 in unpaid minimum royalties for the second quarter of 2004) and \$27,022 due under the Waverly Garden Room License Agreement (\$20,272 in royalties on unreported sales and a \$6,750 underpayment for the first quarter of 2001) (Kevorkian Decl. ¶ 13).

23. The \$17,993 and \$27,022 deficiencies due, respectively, under the Waverly License and Waverly Garden Room License Agreements comprised at least five percent due to Schumacher in at least one reporting period under those agreements (Kevorkian Decl. ¶ 14).

24. The cost of plaintiff's 2004 audit was \$7,294.12 (Kevorkian Decl. ¶ 15).

25. Pursuant to the Waverly Garden Room License and Waverly License Agreements, B&D was required to pay Schumacher for the \$45,015 deficiency disclosed by the 2004 audit. B&D has

failed to pay that amount. (Kevorkian Decl. ¶ 16, Exhibit 1 thereto at ¶ 9 and Exhibit 5 thereto at ¶ 9).

26. Pursuant to the Waverly Garden Room License and Waverly License Agreements, B&D was also required to pay the cost of the 2004 audit because the audit had disclosed that B&D underpaid the amount of royalties due to Schumacher by at least five percent in at least one reporting period. B&D has failed to pay for the cost of the 2004 audit, which totaled \$7,294.12 (Kevorkian Decl. ¶ 17, Exhibit 1 thereto at ¶ 9 and Exhibit 5 thereto at ¶ 9).

27. In addition to the deficiency amounts disclosed by the 2004 audit, Schumacher also discovered that B&D failed to pay Schumacher the advertising contribution costs due on previously reported sales under the Waverly License Agreement for the first and second quarters of 2004; this deficiency totaled \$9,555 (Kevorkian Decl. ¶ 18).

28. B&D also failed to pay plaintiff the minimum royalties remaining due under the Waverly Garden Room and Waverly License Agreements for the third and fourth quarters of 2004; this deficiency totaled \$108,628 (Kevorkian Decl. ¶ 19).

29. On January 6, 2005, and again on February 10, 2005, Schumacher advised B&D in writing that it was in breach of the License Agreements and demanded, among other things, that B&D immediately (i) pay all amounts due to Schumacher in connection

with the 2004 audit in the amount of \$45,015; (ii) pay for the cost of the 2004 audit, in the amount of \$7,294.12; (iii) pay the amount due to Schumacher in connection with advertising contribution fees under the Waverly License Agreement for the first and second quarters of 2004, in the amount of \$9,555; and (iv) pay minimum royalties due to Schumacher under the Waverly Garden Room and Waverly License Agreements for the third and fourth quarters of 2004, in the amount of \$108,628. B&D failed to respond to Schumacher's letters (Kevorkian Decl. ¶ 20 and Exhibits 6-7 thereto).

F. B&D's Default

30. On February 17, 2005, Schumacher commenced this action by filing the summons and complaint (Affidavit of Natasha N. Reed, Esq., sworn to July 14, 2006 ("Reed Aff."), ¶ 4).

31. On February 18, 2005, copies of the complaint and summons were personally served on B&D by hand delivery to Elaina Bou of CT Corporation Systems, B&D's authorized agent, at 111 Eight Avenue, New York, New York 10011 (Reed Aff. ¶ 5).

32. On February 24, 2005, the Affidavit of Service was filed with the Clerk of the Court (Reed Aff. ¶ 6).

33. B&D has failed to answer or otherwise respond to the complaint. B&D has failed to appear and has displayed no interest in participating in this action (Reed Aff. ¶¶ 7, 9).

34. On June 20, 2005, the Clerk of this Court entered a Certificate of Default against defendant pursuant to Rule 55(a) of the Federal Rules of Civil Procedure and Local Civil Rule 55.1 (Reed Aff. ¶ 11 and Exhibit D thereto).

III. Conclusions of Law

35. The Court has jurisdiction over the subject matter of this action pursuant to 15 U.S.C. § 1121 and 28 U.S.C. §§ 1331, 1338(a), and supplemental jurisdiction pursuant to 28 U.S.C. § 1367(a). In addition, because there is diversity of citizenship between the parties to this action and the matter in controversy exceeds \$75,000, the Court also has subject matter jurisdiction pursuant to 28 U.S.C. § 1332(a).

36. Venue is proper in this District pursuant to 28 U.S.C. §1391 (b) and (c) because a substantial part of the events or omissions giving rise to Schumacher's claims occurred in this District. In addition, B&D has also consented to the jurisdiction of this Court for the resolution of any dispute in connection with the License Agreements at issue in this case (Kevorkian Decl. Ex. 1 thereto at ¶ 15.10, Exhibit 3 thereto at ¶ 14 and Exhibit 5 thereto at ¶ 15.10).

37. B&D is doing and transacting business in this District, has committed tortious acts within this District, and is otherwise subject to the jurisdiction of the Court. B&D has a

presence or engages in the solicitation of business in the State of New York, derives substantial revenue from the sale of goods in the State of New York and has committed acts causing injury to plaintiff within the State of New York. Defendant's acts confer in personam jurisdiction over it.

B. Breach of Contract

38. B&D has breached its three License Agreements with Schumacher by refusing to pay Schumacher for all deficiency amounts disclosed by the 2004 audit, which total \$45,015.

39. B&D has breached the Waverly Garden Room and Waverly License Agreements by refusing to pay for the costs of the 2004 audit which total \$7,294.12.

40. B&D has breached the Waverly License Agreement by refusing to pay Schumacher advertising fees for the first and second quarters of 2004, which total \$9,555.

41. B&D has breached the Waverly Garden Room and Waverly License Agreements by refusing to pay Schumacher the minimum royalties remaining due for the third and fourth quarters of 2004, which total \$108,628.

C. Schumacher's Damages

42. B&D is liable to Schumacher for all deficiency sums disclosed by the 2004 audit of B&D's accounts and books, namely \$45,015.

43. B&D is liable to Schumacher for the cost of the 2004 audit, namely \$7,294.12.

44. B&D is liable to Schumacher for Schumacher advertising contribution costs due under the Waverly License Agreement for the first and second quarters of 2004, namely \$9,555.

45. B&D is liable to Schumacher for the minimum royalties remaining due under the Waverly Garden Room License Agreement and Waverly License Agreement for the third and fourth quarters of 2004, namely \$108,628.

46. Interest is recoverable in connection with Schumacher's breach of contract claim at the annual rate of nine percent. N.Y. C.P.L.R. §§ 5001(a), 5004.

47. Interest shall be computed from the earliest ascertainable date the cause of action existed to the date the judgment is entered. N.Y. C.P.L.R. §5001(b)-(c).

48. By reason of the foregoing, B&D is liable to Schumacher in the amount of \$170,492.12, plus interest at nine percent from January 6, 2005 (the date that Schumacher first notified B&D of its breaches), for a total, as of July 9, 2007, of \$208,852.85.

IV. Conclusion

Accordingly, for all the foregoing reasons, I respectfully recommend that Schumacher's motion for a default judgment be granted and that final judgment be entered against B&D in the amount of \$208,852.85 plus costs as taxed by the Clerk of the Court.

V. Objections


Pursuant to 28 U.S.C. § 636(b)(1)(C) and Rule 72(b) of the Federal Rules of Civil Procedure, the parties shall have ten (10) days from the date of this Report and Recommendation to file written objections. See also Fed.R.Civ.P. 6(a) and 6(e). Such objections (and responses thereto) shall be filed with the Clerk of the Court, with courtesy copies delivered to the chambers of the Honorable Richard M. Berman, United States District Judge, 500 Pearl Street, Room 650, New York, New York 10007, and to the chambers of the undersigned, 500 Pearl Street, Room 750, New York, New York 10007. Any requests for an extension of time for filing objections must be directed to Judge Berman. FAILURE TO OBJECT WITHIN TEN (10) DAYS **WILL** RESULT IN A WAIVER OF OBJECTIONS AND WILL PRECLUDE APPELLATE REVIEW. Thomas v. Arn, 474 U.S. 140 (1985); IUE AFL-CIO Pension Fund v. Herrmann, 9 F.3d 1049, 1054 (2d Cir. 1993); Frank v. Johnson, 968 F.2d 298, 300 (2d Cir.

1992); Wesolek v. Canadair Ltd., 838 F.2d 55, 57-59 (2d Cir.

1988); McCarthy v. Manson, 714 F.2d 234, 237-38 (2d Cir. 1983).

Dated: New York, New York
July 9, 2007

Respectfully submitted,


HENRY PITMAN
United States Magistrate Judge

Copy mailed to:

Daniel H. Weiner, Esq.
Natasha N. Reed, Esq.
Hughes Hubbard & Reed LLP
One Battery Park Plaza
New York, New York 10004-1482

Barth & Dreyfuss of
California, Inc.
2255 North Ontario Street
Burbank, California 91504